CUB ENERGY INC

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

Introduction

The following management discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for Cub Energy Inc. (the "Company" or "Cub") and should be read in conjunction with the unaudited consolidated financials for the three and nine months ended September 30, 2021 and 2020. Amounts are reported in United States dollars, unless otherwise stated, based upon the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A is dated as of November 29, 2021.

This MD&A provides management's view of the financial condition of the Company and the results of its operations for the reporting periods indicated. Additional information related to the Company is available on the Canadian Securities Administrators' website at www.sedar.com or on the Company's website at www.cubenergyinc.com.

Corporate Overview and Strategy

The Company is a publicly-traded, international energy company engaged in exploration and development of onshore oil and gas properties and power generation in Ukraine. Key to success in this region is the Company's strong local relationships, key operating partnerships and a history of management experience operating in-country.

Current revenue is driven by a 35% interest in KUB-Gas LLC ("KUB-Gas") in eastern Ukraine and the Company's 100% operated interest in western Ukraine in Tysagaz LLC ("Tysagaz").

Barrels of Oil Equivalent Conversion

A barrel of oil equivalent ("boe") or units of natural gas equivalents ("Mcfe") are calculated using the conversion factor of 6 Mcf (thousand cubic feet) of natural gas being equivalent to one barrel of oil. A boe conversion ratio of 6 Mcf:1 bbl (barrel), or a Mcfe conversion ratio of 1 bbl:6 Mcf, is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the boe ratio is useful for comparative measures, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value. Test results are not necessarily indicative of long-term performance or of ultimate recovery. The test data contained herein is considered preliminary until full pressure transient analysis is complete.

Forward Looking Information

This MD&A contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, its power and petroleum and natural gas projects, the future price of resources, the estimation of reserves, the realization of resource estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of development, costs and timing of future exploration, requirements for additional capital, government regulations, environmental risks, reclamation expenses, title disputes or claims and limitations of insurance coverage. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and are based on assumptions. They involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, fluctuations in currency, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of resources; possible variation recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labor disputes and other risks of the industry; political instability; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, except as may be required by applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Reported Results and Equity Investment

As at September 30, 2021, the Company had an effective 35% ownership interest in KUB-Gas LLC, a Ukrainian company which owns assets representing a substantial portion of the Company's core operating properties, income and cashflow. The Company also owns 100% ownership of Tysagaz, which commenced power production in the second quarter of 2021 utilizing the RK Field in western Ukraine. In addition, the Company has an effective 50% ownership in CNG Holdings Netherland B.V. ("CNG Holdings") which in turn owns CNG LLC ("CNG LLC") to jointly explore a production licence in western Ukraine which currently has no production and is pending a sale.

All of the KUB-Gas shares are held through KUBGAS Holdings Limited ("KUB Holdings"), a private company incorporated in Cyprus, which is 35% owned by the Company. The results for the three and nine months ended September 30, 2021 and 2020 reflect the 35% ownership in KUB Holdings. The Company does not control KUB Holdings nor CNG Holdings and is required under IFRS to record their investment under the equity method of accounting. In doing so, it reports none of the revenues, royalties or production expenses for KUB Holdings and CNG Holdings within its consolidated statements of operations and cash flows. Similarly, the Company does not report the individual consolidated assets and liabilities of KUB Holdings and CNG Holdings on its consolidated statements of financial position.

The historical 35% share of the net assets of KUB Holdings attributable to the Company are presented as an "Equity investments" within non-current assets on the consolidated statement of financial position. Net profits or losses from the historical 35% interest of KUB Holdings are presented as a single line item "income from equity investment" on the consolidated statements of operations. CNG results are not included in equity investments as the cumulative losses exceeds the cumulative carrying value of the equity investment.

A substantial portion of the financial analysis in this MD&A does not reflect the Company's interest in the results of KUB Holdings. The table below summarizes the results reported by the Company in accordance with IFRS, then deducts the single line item "income from equity investment" and adds the 35% KUB Holdings share allocable to its equity investment to reflect the gross results of operations attributable to the Company's 35% and finally the pro-rata net to Cub results which is a non-IFRS and non-GAAP measure.

Nine months ended September 30, 2021	As Reported	Deduct Equity Investments	Add Allocated from Equity Investments	Pro-rata Net to Cub
Average Daily Production (boe/d)	24	-	489	513
Revenue from gas sales	$ 305,000	$ -	$ 4,193,000	$ 4,498,000
Revenue from gas trading[(1)]	6,180,000	(3,869,000)	-	2,311,000
Revenue from sale of electricity	459,000	-	-	459,000
Royalty	(101,000)	-	(2,077,000)	(2,178,000)
Gross profit	**6,843,000**	**(3,869,000)**	**2,116,000**	**5,090,000**
Income from equity investment	737,000	(737,000)	-	-
Operating expenses				
Cost of sales for gas trading[(1)]	3,869,000	(3,869,000)	-	-
Selling and general administrative	1,228,000	-	5,000	1,233,000
Cost of gas sales	101,000	-	1,117,000	1,218,000
Depletion and depreciation	62,000	-	132,000	194,000
Cost of electricity sales	172,000	-	-	172,000
Finance loss, net of income	(16,000)	-	105,000	89,000
Accretion	26,000	-	20,000	46,000
	5,442,000	**(3,869,000)**	**1,379,000**	**2,953,000**
Net income	**$ 2,138,000**	**$ (737,000)**	**$ 737,000**	**$2,138,000**

Nine months ended September 30, 2021	As Reported	Deduct Equity Investments	Add Equity Investments	Pro-rata Net to Cub
Netback ($/boe)				
Revenue	-	-	$46.82	$46.82
Royalty	-	-	(15.56)	(15.56)
Production expenses	-	-	(8.36)	(8.36)
Field netback ($/boe)	**-**	**-**	**$ 22.90**	**$ 22.90**
Field netback ($/mcfe)	**-**	**-**	**$ 3.82**	**$ 3.82**

Three months ended September 30, 2021	As Reported	Deduct Equity Investments	Add Allocated from Equity Investments	Pro-rata Net to Cub
Average Daily Production (boe/d)	20	-	458	478
Revenue from gas sales	$ 114,000	$ -	$ 1,975,000	$ 2,089,000
Revenue from gas trading(1)	2,698,000	(1,875,000)	-	823,000
Revenue from sale of electricity	281,000	-	-	281,000
Royalty	(36,000)	-	(891,000)	(927,000)
Gross profit	**3,057,000**	**(1,855,000)**	**1,084,000**	**2,266,000**
Income from equity investment	614,000	(614,000)	-	-
Operating expenses				
Cost of sales for gas trading(1)	1,875,000	(1,875,000)	-	-
Selling and general administrative	323,000	-	1,000	323,000
Cost of gas sales	18,000	-	390,000	408,000
Cost of electricity sales	105,000	-	-	105,000
Depletion and depreciation	37,000	-	43,000	80,000
Finance income, net of loss	(88,000)	-	30,000	(58,000)
Accretion	9,000	-	6,000	15,000
	2,279,000	**(1,875,000)**	**470,000**	**873,000**
Net income	**$ 1,392,000**	**$ (614,000)**	**$ 614,000**	**$1,392,000**

Three months ended September 30, 2021	As Reported	Deduct Equity Investments	Add Equity Investments	Pro-rata Net to Cub
Netback ($/boe)				
Revenue	-	-	$61.42	$61.42
Royalty	-	-	(21.16)	(21.16)
Production expenses	-	-	(9.26)	(9.26)
Field netback ($/boe)	**-**	**-**	**$ 31.00**	**$ 31.00**
Field netback ($/mcfe)	**-**	**-**	**$ 5.17**	**$ 5.17**

(1) Commencing August 2016, the Company's wholly-owned subsidiary, Tysagaz, began taking possession of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased its share of gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of the majority owner. The Company agreed to this arrangement so it could attempt to earn additional net income from the gas sales price to the majority owner's affiliate. For purposes of these pro-rata disclosures, the cost of sales is eliminated as it's already included in the equity investment revenue.

(2) For purposes of the pro-rata netback calculation, the Company's profit from gas trading is added to the revenue of Kub-Gas to better reflect the true natural gas price achieved and field netback.

Results of Operations

(in thousands of US Dollars)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Revenue from gas trading	2,698	1,255	6,180	4,382
Pro-rata petroleum and natural gas revenue(1)	2,089	659	4,498	2,713
Revenue from sale of electricity	281	-	459	-
Petroleum and natural gas revenue	114	37	305	146
Net income (loss)	1,392	(374)	2,138	(2,274)
Income (loss) per share – basic and diluted	0.00	(0.00)	0.01	(0.01)
Funds generated from (used in) operations	330	(232)	1,414	(325)
Capital expenditures(2)	-	-	352	-
Pro-rata capital expenditures(2)	146	-	601	869
Pro-rata netback ($/boe)	31.00	9.11	22.90	9.13
Pro-rata netback ($Mcfe)	5.17	1.52	3.82	1.52

	September 30, 2021	December 31, 2020
Cash and cash equivalents	5,385	4,424

Notes:

(1) Pro-rata petroleum and natural gas revenue is a non-IFRS measure that adds the Company's petroleum and natural gas revenue earned in the respective periods to the Company's 35% equity share of the KUB-Gas natural gas sales that the Company has an economic interest in.

(2) Capital expenditures includes the purchase of property, plant and equipment and the purchase of exploration and evaluation assets. Pro-rata capital expenditures are a non-IFRS measure that adds the Company's capital expenditures in the respective periods to the Company's 35% equity share of the KUB-Gas and 50% equity share of CNG Holdings capital expenditures that the Company has an economic interest in.

(3) For purposes of the pro-rata netback calculation, the Company's profit from gas trading is added to the revenue of Kub-Gas to better reflect the true natural gas price achieved and field netback.

Highlights

- The Company reported net income of $2,138,000 or $0.01 per share during the nine months ended September 30, 2021 as compared to a net loss of $2,274,000 or $0.01 per share during the comparative 2020 period. The Company benefited from higher natural gas prices during 2021.
- Netbacks of $22.90/boe or $3.82/Mcfe were achieved for the nine months ended September 30, 2021 as compared to netback of $9.13/Boe or $1.52/Mcfe for the nine month comparative period in 2020.
- Achieved average natural gas price of $7.66/Mcf and condensate price of $69.16/bbl during the nine months ended September 30, 2021 as compared to $3.59/Mcf and $40.33/bbl for the comparative 2020 period. The increase in commodity prices is due, in large part, to the lessening global impacts of COVID-19 and geopolitical events.
- Production averaged 513 boe/d (97% weighted to natural gas and the remaining to condensate) for the nine months ended September 30, 2021 as compared to 638 boe/d for the comparative 2020 period.

- In May 2021, the Company commenced commercial production of its Jenbacher gas power generation units that are converting natural gas produced from its wholly-owned RK gas field into power that is being sold in western Ukraine at local market rates.
- The power business generated 5,546 MWh from the Jenbacher power units in Western Ukraine for the period of commencement in mid May 2021 to September 18, 2021 at an average price of $71/MWh. Due to the recent material increase in natural gas prices and no parallel increase in power prices, the Company has increased its sales of natural gas at the RK field and temporarily suspended the power business as of September 18, 2021 as this strategy is more profitable at present. The Company will continue to monitor the prices of both commodities and utilize whichever one produces the better return for shareholders.
- On September 7, 2021, the Company announced it had entered into a letter agreement to sell its 35% interest in KUB-Gas for a cash payment of $2,600,000 and settlement of approximately $8,000,000 in debt for total deemed consideration of approximately $10,600,000. The closing of the transaction is subject to the parties entering into a definitive agreement and regulatory approval.
- On April 30, 2021, the Company announced it had entered into a share purchase agreement ("SPA") to sell its 50% interest in CNG Holdings, which indirectly owns the Uzhgorod licence in western Ukraine. In consideration, the Company is to receive €800,000 for its 50% interest in CNG Holdings. The consideration consists of €600,000 in cash on closing and €200,000 is a contingent payment on certain future events including a commercial discovery. The closing is subject to certain conditions including Ukraine regulatory approval.
- The company is monitoring recommendations by the public health authorities related to COVID-19 in all its operating regions and is adjusting operational requirements as required. All of the Company's facilities remain fully operational.

Western Ukraine Tysagaz Assets (100% Interest)

The Company commenced power generation in mid-May 2021 through two Jenbacher gas power generation engines that are converting the natural gas produced from the RK field into power that is being sold in western Ukraine at local market rates. The power generation units have the capacity to produce as much as 3 megawatts ("MW") of power utilizing the 100% owned RK gas field. Due to the recent material increase in natural gas prices and no parallel increase in power prices, the Company has increased its sales of natural gas at the RK field and temporarily suspended the power business as of September 18, 2021. The Company will continue to monitor the prices of both commodities and utilize whichever one produces the better return for shareholders.

Eastern Ukraine KUB-Gas Assets (35%)

On September 7, 2021, the Company announced it had entered into a letter agreement to sell its 35% interest in KUB-Gas for a cash payment of $2,600,000 and settlement of approximately $8,000,000 in debt for total deemed consideration of approximately $10,600,000. The closing of the transaction is subject to the parties entering into a definitive agreement and regulatory approval.

Western Ukraine CNG Assets (50% Interest)

On April 30, 2021, the Company announced it had entered into an agreement to sell its 50% interest in CNG Holdings, which indirectly owns the Uzhgorod licence in western Ukraine. In consideration, the Company is to receive €800,000 for its 50% interest in CNG Holdings. The consideration consists of €600,000 in cash on closing and €200,000 is a contingent payment on certain future events including a commercial discovery. The closing is subject to certain conditions including Ukraine regulatory approval.

Ukraine Currency

The Ukrainian exchange, the Hryvnya ("UAH") rate versus the USD was 26.58 UAH/USD at September 30, 2021, which appreciated approximately 7% as compared to the 28.27 UAH/USD at December 31, 2020.

Going Concern

With the volatile commodity prices, negative working capital, currency fluctuations, reliance on a few customers and impact on carrying values, the Company may not have sufficient cash to continue exploration and development activities. These matters raise significant doubt about the ability of the Company to continue as a going concern and meet its obligations as they become due. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, stability in Ukraine and attaining future profitable operations in Ukraine. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding or any at all. There is no assurance this capital will be available and, if it is not, the Company may be forced to curtail or suspend all planned activity.

Summary of Quarterly Results

The following table sets out selected unaudited consolidated financial information for each of the last eight quarters ended up to and including September 30, 2021. The information contained herein is taken from the consolidated financial statements of the Company for each of the aforementioned quarters.

Quarter Ended	Sept 30, 2021	June 30, 2021	Mar 31, 2021	Dec 31, 2020
Revenue from gas trading	2,698,000	1,829,000	1,653,000	1,328,000
Revenue from sale of electricity	281,000	178,000	-	-
Revenue from gas sales	114,000	97,000	94,000	69,000
Income from equity				
Investment	614,000	82,000	41,000	134,000
Operating expenses	2,279,000	1,685,000	1,493,000	1,344,000
Net income	1,392,000	483,000	263,000	165,000
Income per share	0.00	0.00	0.00	0.00
Working Capital (deficit)	(4,258,000)	(4,830,000)	(5,583,000)	(5,585,000)

Quarter Ended	Sept 30, 2020	June 30, 2020	Mar 31, 2020	Dec 31, 2019
Revenue from gas trading	1,255,000	923,000	2,204,000	1,487,000
Revenue from gas sales	37,000	43,000	66,000	59,000
Income (loss) from equity				
Investment	(335,000)	(927,000)	79,000	737,000
Operating expenses	1,320,000	1,221,000	3,035,000	13,594,000
Net loss	(374,000)	(1,194,000)	(706,000)	(11,320,000)
Loss per share	(0.00)	(0.00)	(0.00)	(0.04)
Working Capital (deficit)	(4,776,000)	(4,896,000)	(3,787,000)	(2,055,000)

Material Variations in Quarterly Results

During the quarter ended June 30, 201, the Company commenced the power generation and began to record resulting sale of electricity.

During the quarter ended June 30, 2020, the Company's loss from equity investment was negatively impacted by the write-off of the M-30 well. The Company's working capital was negatively impacted during the quarter ended March 31, 2020 as a result of the Pelicourt loan being reclassified from a non-current liabilities to current liabilities and was also impacted in the third and fourth quarters of 2020 with the purchase of the Jenbacher units and related costs for $1,423,000 in cash.

The Company also experienced declining natural gas prices in late 2019 and into 2020, that contributed to material impairments to its assets in the fourth quarter of 2019.

Revenue from Gas Trading

Commencing August 2016, the Company's wholly owned subsidiaries began taking possession of some of its 35% ownership of gas produced at KUB-Gas. The Companies subsidiaries purchased the gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of the majority shareholder of KUB-Gas. The Company agreed to this arrangement so it could attempt to earn additional net income from the gas sales price sold to the majority owner's affiliate. During the three months ended September 30, 2021, the Company recorded $2,698,000 in gas trading revenue (2020 - $1,255,000) and $1,875,000 for the cost of the gas trading (2020- $688,000) for a net profit of $823,000 (2020 - $567,000). During the nine months ended September 30, 2021, the Company recorded $6,180,000 in gas trading revenue (2020 - $4,382,000) and $3,869,000 for the cost of the gas trading (2020- $3,483,000) for a net profit of $2,311,000 (2020 - $899,000).

Revenue from Sale of Electricity

The Company began power generation in mid-May 2021 resulting in revenue during the three and nine months ended September 30, 2021 of $281,000 and $459,000, respectively, as compared to no revenue in 2020. The power business was temporarily suspended on September 1, 2021 as the Company could earn a better return selling the natural gas than generating power utilizing the natural gas.

Revenue from Gas Sales

The Company produced gas from the RK field in western Ukraine resulting in revenue during the three and nine months ended September 30, 2021 amounted to $114,000 and $305,000 respectively, as compared to $37,000 and $146,000 in the comparative 2020 periods.

Income from Equity Investments

The Company accounts for its 35% indirect ownership in KUB Holdings and 50% ownership of CNG Holdings as investments under the equity method.

During the three months ended September 30, 2021, KUB-Gas generated gross revenues of approximately $5,642,000 (2020 - $1,779,000) and had a net income of $1,753,000 (2020 – net loss $961,000). The net income to the Company from its 35% equity investment for the quarterly period of $614,000 (2020 – net loss of $335,000). During the nine months ended September 30, 2020, KUB-Gas generated gross revenues of approximately $11,979,000 (2020 - $7,335,000) and had net income of $2,106,000 (2019 – net loss of $3,383,000). This resulted in a net income to the Company from its 35% equity investment for the quarterly period of $737,000 (2020 – net loss of $1,183,000). The net loss in the prior period was largely attributed to the impairment charge of $2,157,000 for the M-30 well and lower gas prices.

The net income at CNG Holdings was $325,000 (2020 – net loss of $1,072,000) during the three months ended September 30, 2021 and net income of $500,000 (2020 – net loss $2,260,000) for the nine months ended September 30, 2021. Net losses/income in the periods were also related to finance income, net of finance expense, on intercompany loans and the effects of foreign exchange, as the loans are denominated in Euros, to fund the exploration activities in Ukraine.

Selling and General Administrative Expenses

Selling and general administrative expenses were $323,000 during the three months ended September 30, 2021, as compared to $533,000 in the comparative 2020 quarter. For the nine months ended September 30, 2021, selling and administrative expenses were $1,228,000 as compared to $2,053,000 in 2020. The decrease is largely a result of cost cutting measures taken in 2020 including the reduction in staff and office space. Some of the significant items contained within selling and general administrative expenses are as follow:

Salaries

During the third quarter of 2021, salaries to staff and director's fees were $168,000 which was lower compared to $320,000 during the comparative 2020 quarter. Salaries were $567,000 during the nine months ended September 30, 2021 as compared to $1,136,000 during the comparative 2020 period The salary expenditures decreased due to cost cutting measures that were taken in the third quarter of 2020.

Office and administration

Office and administration costs were $90,000 in the third quarter ended September 30, 2021, as compared to $79,000 in the comparative 2020 quarter. Office costs were $306,000 for the nine months ended September 30, 2021 as compared to $424,000 in the comparative 2020 period.

Professional fees

Professional fees were $13,000 during the third quarter ended September 30, 2021 as compared to $30,000 in the comparative 2020 quarter and were $161,000 during the nine months ended September 30, 2021 as compared to $287,000 in 2020. The Company incurred professional fees in 2020 primarily related to the technical review of the Nitrogen Rejection Unit which was sold in 2020.

Consulting

Consulting fees were $41,000 during the third quarter of 2021 as compared to $101,000 in consulting fees during the 2020 comparative quarter. For the nine months ended September 30, 2021, the consulting fees were $123,000 as compared to $190,000 for the comparative 2020 period. During the comparative period, consulting fees rose in relation to a review of a new business opportunity.

Travel

The Company incurred travel costs of $11,000 in the third quarter of 2021 and as compared to $3,000 in the comparative 2020 period. During the nine months ended September 30, 2021, travel costs were $71,000 as compared to $16,000 in the comparative 2020 period. Travel expenses include costs associated with international operations and meetings with the Company's equity partners.

Net Profit/Loss

During the third quarter ended September 30, 2021, the Company recorded net income of $1,392,000 or $0.00 per share as compared to net loss of $374,000 or $0.00 per share in the comparative 2020 quarter. The Company recorded net income of $2,138,000 or $0.01 per share during the nine months ended September 30, 2021 as compared to a net loss of $2,274,000 or $0.01 per share in the comparative 2020 period.

Foreign Currency Translation Income/Loss

During the third quarter ended September 30, 2021, the foreign currency translation loss was $87,000 as compared to a gain of $209,000 in the comparative 2020 quarter. The foreign currency translation loss was $189,000 during the nine months ended September 30, 2021 as compared to income of $470,000 in the comparative 2020 period. The income and losses relate to the revaluation of the Company's foreign assets and liabilities from the local currency (Ukrainian, Canadian and European currencies) to the US dollar in accordance with the Company's accounting policy for the translation of its subsidiaries. The recent foreign currency translation income was primarily the result in the strengthening of the Ukrainian Hryvnya against the US dollar. The carrying value of the assets of the Ukrainian subsidiaries were materially impacted by the volatility of the local currencies in the past. The appreciation/devaluation materially raises/lowers the carrying value of the Ukrainian property, plant and equipment and the value of the equity investment in KUB Holdings. These gains/losses do not impair the ability of those assets or liabilities to perform their intended purpose.

Liquidity, Capital Resources and Financings

At September 30, 2021, the Company had a cash balance of $5,385,000 (December 31, 2020 - $4,424,000) and working capital deficit of $4,258,000 (December 31, 2020 – $5,585,000). The working capital deficit includes the $925,000 Pelicourt loan, the KUB-Gas loans in the amount of $5,361,000 and the current portion of a Ukraine bank loan in the amount of $295,000. Mikhail Afendikov, the Company's former CEO, was a principal of Pelicourt. The Pelicourt loan is being repaid in $150,000 quarterly installments and is callable with 60 days written notice. The KUB-Gas loans are due December 31, 2022 and are callable at any time. The Company had no long-term debt or capital leases other than the two loans referenced and the Ukraine bank loan. The Company has historically been able to raise funds through the issuance of common shares or debt although there are no assurances funds will be available in the future.

During the nine months ended September, 2021, the Company entered into a new secured bank loan with a Ukraine financial institution in the amount of €650,000 (US $793,000) and made principal repayments of $91,000. The Company also made principal payments of $900,000 on the Pelicourt loan as the Ukraine bank loan bears interest at 7% versus the Pelicourt loan at 10.8%.

During the nine months ended September 30, 2021, the Company incurred $352,000 in equipment expenditures for the Jenbacher power units and related costs as compared to no expenditures in the comparative 2020 period. During the nine months ended September 30, 2021, KUB-Gas incurred $711,000 in capital expenditures as compared to approximately $2,482,000 in the comparative 2020 period which was for the M-30 well which was abandoned during the 2020 period.

There remains significant doubt about the ability of the Company to continue as a going concern and meet its obligations as they become due.

Off Balance Sheet Arrangements

During the year ended December 31, 2018, the Company's subsidiary, Tysagaz, entered into a bank guarantee for 25,000,000 UAH ($890,000) with a state-owned Ukrainian bank to guarantee its working capital requirement for the gas trading business. The term of the bank guarantee is a 3% annual fee to keep the guarantee in place. The Company is also a party to the guarantee. In February 2019, the bank guarantee was reduced to 10,000,000 UAH ($356,000). In December 2019, the Company's subsidiary, Tysagaz, entered into a new bank guarantee for 8,000,000 UAH ($285,000) as a result of a change in structure of the pipeline operator and the 10,000,000 UAH bank guarantee was terminated in January 2020.

Restricted Cash

During 2019, the Company pledged 4,500,000 UAH ($160,000) of its cash in the Ukraine bank for the bank guarantee. During the year ended December 31, 2020, the pledged amount was decreased to 2,600,000 UAH ($92,000) of which 2,400,000 UAH ($85,000) relates to the gas trading business and 200,000 UAH ($7,000) relates to the power generation line of business. During the nine months ended September 30, 2021, 2,200,000 UAH ($79,000) was returned leaving 400,000 UAH ($15,000) remaining.

Outstanding Share Data

Issued and outstanding as at the date of this MD&A:

Type	Number
Common Shares	314,215,355
Stock Options	8,700,000

Commitments and Contingencies

Ukraine

The Company has an obligation to incur certain capital expenditures to comply with the Ukrainian licence requirements. Under these licence maintenance commitments, the Company is required to explore its licenced fields. Although these commitments are not binding and may be modified based on results of work, the Company's potential capital expenditures relating to qualifying activities on gas and gas condensate fields will be material during the period from 2022 to 2027 as part of the planned exploration and development programs. Justified deviation from the capital expenditures is permitted and should be agreed with the licensor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the exploration licence.

Lawsuits

During the year ended December 31, 2016, the Company's 50% indirect investment in Ukraine associate, CNG LLC, learned of two non-governmental organization ("NGO") lawsuits filed against the State Service of Geology and Mineral Resources of Ukraine ("SGS"), the government body who issues licences in Ukraine, concerning recent licence grants including the Company's recently issued Uzhgorod licence. From publicly available information, it appears that the NGO filed at least five more lawsuits challenging the SGS for issuance of several licenses issued to various third party subsoil users. The Company believes the claims to be frivolous and without merit and there is no reason to postpone investment activities within the Uzhgorod license. To be clear, CNG LLC, which holds the Uzhgorod license is not a defendant under the claims but could be materially affected by a negative outcome. Therefore, CNG LLC has participated in the litigation as a third party on the defendant's side. During the year ended December 31, 2017, one of the two NGO lawsuits against SGS was dismissed by the Ukraine courts. The other lawsuit is still pending.

Restrictive Measure

In 2021, the Ukraine government imposed a restrictive measure against Tysagaz, the Company's 100% owned subsidiary. The restrictive measure was limited to the Stanivske license which was a non-core and non-producing asset with no carrying value. The Stanivske licence was subsequently revoked in 2021 by the SGS. The restrictive measure and revocation of the Stanivske license is not material to the Company and has no material impact on the operations of Tysagaz. Since the Stanivske license has been revoked, Tysagaz and the government of Ukraine are discussing options to terminate the restrictive measure.

Transactions with Related Parties

Transactions with related parties are incurred in the normal course of business. During the nine months ended September 30, 2021 and 2020, there were no related party transactions other than the shareholder loan and KUB-Gas loans - see "Liquidity, Capital Resources and Financing".

Critical Accounting Estimates

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates. Significant estimates include:

- To value the equity investment in KUB Holdings, management obtains financial information from the majority owner. The recoverability of the Company's equity investment in KUB Holdings is subject to all estimates included in the financial information from the majority owner, as well as estimates of the recoverable amount of the natural gas reserves held by its wholly-owned subsidiary Kub-Gas. Additionally, the Company estimates the ability of KUB Holdings to generate future dividends.
- The determination of cash-generating units ("CGU") requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.
- Amounts recognized for depletion and depreciation of property, plant and equipment and the assessment of these assets for impairment which includes petroleum and natural gas interests are based on estimates of proved and probable reserves, natural gas prices, future costs, royalty payments and taxes, timing, and other relevant assumptions. By their nature, the estimates of reserves are subject to measurement uncertainty. Changes in these variables could significantly impact the reserves estimates which would affect estimates of recoverable amounts, and depletion and depreciation expense. The Company's natural gas reserves are evaluated annually and reported to the Company by independent qualified reserves evaluators. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels, and changes in costs, and commodity prices.
- Amounts recognized for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.
- Charges for share-based payments and the value of restricted stock units (RSU) are based on the fair value at the date of issuance. These instruments are subject to the estimation using pricing models such as the Black-Scholes option pricing model, which is based on assumptions such as volatility, dividend yield, risk free rate of return and expected term. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.
- Tax interpretations, regulations and legislations in the jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.
- Judgment is required to determine the functional currency of the parent and its subsidiaries. These judgments are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances, including analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates.*
- Judgment is required to determine the value of its petroleum and natural gas interests (RK field) and the capital equipment to utilize the power generation.

- The Company applies judgment in assessing its ability to continue as a going concern for at least 12 months. In making this assessment, the Company considers the facts and circumstances disclosed elsewhere in this MD&A. The Company concluded that there is a material uncertainty that may cast doubt on its ability to continue as a going concern.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, trade and other receivables (excluding sales tax), non-current receivables, shareholder loan, bank loan, loan from KUB-Gas and trade and other payables. The fair values of financial instruments other than cash and cash equivalents approximate their carrying values. Trade and other receivables and trade and other payables approximate fair value due to the short term nature of the accounts. The shareholder loan approximate fair value due to the use of market rates of interest. The loans from KUB-Gas, the loan to CNG LLC and the Ukraine bank loan also approximate fair value as they have been discounted with an interest rate comparable to current market rates. The non-current receivables approximate fair value as they include a loan receivable at a market interest rate that is currently subject to negotiations for an extension or settlement.

Non-IFRS Measures

The financial information presented in this MD&A has been prepared in accordance with IFRS except for the terms "funds from operations", "netback", "working capital" and "pro-rata net to Cub" which are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. These non-IFRS measures are presented for information purposes only and should not be considered an alternative to, or more meaningful than information presented in accordance with IFRS. Management believes funds from operations, netback, working capital and pro-rata net to Cub may be useful supplemental measures as they are used by the Company to measure operating performance and to evaluate the timing and amount of capital required to fund future operations. The Company's method of calculating these measures may differ from those of other companies and, accordingly, they may not be comparable to measures used by other companies. The Company calculates "funds from operations", "netback", "working capital" and "pro-rata net to Cub" as presented earlier in this document.